

**ANALYSIS OF AMENDED BILL**

Author: Nation Analyst: Deborah Barrett Bill Number: AB 1952  
 Related Bills: See Legislative History Telephone: 845-4301 Amended Date: April 17, 2006  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Healthy California Act/ California Essential Health Benefits Program/FTB Distribute Form Prepared By the Managed Risk Medical Insurance Board

**SUMMARY**

This bill would establish the California Essential Health Benefits Program (Program) and require Franchise Tax Board (FTB) to distribute information regarding newly mandated health care coverage requirements.

**SUMMARY OF AMENDMENTS**

The April 6, 2006, amendments delete language related to the administration of the Health Insurance Portability and Accountability Act (HIPAA), and added provisions that establish the Program. The amendments added provisions that require the department to send to individuals that file tax returns in the previous calendar year notices detailing the Program and newly mandated health care coverage requirements. The April 6, 2006, amendments contain administrative provisions for the Program that do not impact the department and are not discussed in this analysis.

The April 17, 2006, amendments added language to express the intent of the Legislature that implementation of an electronic record keeping system for medical records by hospitals, health insurers, health care service providers and service plans will improve treatment outcomes and save lives by providing timely access to important medical information. The amendments added additional intent language specifying that the Managed Risk Medical Insurance Board contract with an academic institution to establish a Center for Quality Medicine that will have specific research and recommendation responsibilities. This language does not impact the department's operations or programs and is not discussed in this analysis.

This is the department's first analysis of this bill.

**PURPOSE OF THE BILL**

According to the author's staff, the purpose of this bill is to address the uninsured health insurance gap for California residents by providing universal health care coverage.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

S. Stanislaus

Date

5/18/06

## **EFFECTIVE/OPERATIVE DATE**

This bill would be effective and operative on January 1, 2007.

## **POSITION**

Pending.

## **ANALYSIS**

### FEDERAL/STATE LAW

Under current federal and state income tax laws, employees are allowed to exclude from taxable income their employers' contributions to employer-provided health care coverage. Employers are allowed to deduct their contributions to employee health care coverage as a trade or business expense when calculating taxable income.

### THIS BILL

This bill would establish the Program, which would set minimum health care coverage, service levels, benefits, deductible limits, and cost sharing amounts. The Managed Risk Medical Insurance Board (Board) would administer the Program. This bill would mandate the following:

- 1) Every California resident who is 18 years or older and not participating in a publicly provided health care program, must obtain and show proof of health care coverage for themselves and their dependents that is equal to the level of coverage established under the Program.
- 2) Every employer who does not provide health care coverage for its employees and their dependents that is equivalent to the coverage minimums established by the Program must contribute 7% of its total payroll costs to a fund that will provide uninsured workers health care coverage.
- 3) Employees not covered by employer provided health care coverage must contribute 30% of an established premium cost, and 50% of their dependents' premium cost offered by the Program, as well as pay any deductible amounts or other out of pocket expenses.
- 4) Self employed or unemployed individuals, or their dependents, are not covered by the Program, unless their annual wages are 300% below the federal poverty level.

This bill would require Franchise Tax Board (FTB) to distribute to every person to whom it distributes tax information regarding personal income tax liability, including without limitation, every person who filed a personal income tax return in the most recent calendar year, a form that informs the recipient of the requirement to establish and maintain health care coverage as mandated by this bill. The form will be prepared by the Managed Risk Medical Insurance Board (Board) and explain the process by which the individual may obtain coverage through the Program.

This bill also contains language expressing the Legislature's intent to establish a maximum for the deduction amount allowed for income tax purposes for health care coverage expenses paid by an employer and that any revenue resulting from this deduction cap would help to fund the Program.

## IMPLEMENTATION CONSIDERATIONS

FTB has identified the following implementation concerns. Staff is available to work with the author's office to resolve these and other concerns that may be identified.

It is unclear whether the author intends for each piece of correspondence generated by the department to include information about health care coverage requirements or whether a separate, annual mailing is intended. It is recommended that the author clarify these notice-related issues to ensure the bill is implemented as intended.

The requirement to send a notice to individuals who file a personal income tax return would also include taxpayers who file nonresident or part year resident returns, despite the fact that they would not be required to obtain the mandatory insurance. It is suggested that an exception be provided for nonresident or deceased taxpayers.

Depending on how the implementation issues are resolved, the department anticipates that the requirements of this bill can be accomplished through normal annual updates, but could require additional funding as described below under Fiscal Impact.

## TECHNICAL CONSIDERATIONS

On page 12, line 9, "purpose" should be changed to "purposes."

## LEGISLATIVE HISTORY

AB 2450 (Richman, 2005/2006) proposes to mandate health care coverage for all California residents. The bill would require FTB to work in conjunction with the Department of Insurance and Department of Health Services to develop a method to verify that California residents have obtained the required level of health insurance coverage. This bill was introduced on February 23, 2006, and was referred to the Assembly Committee on Health.

AB 1670 (Nation 2005/2006) provided for a 3-part plan to require mandatory health care coverage, with taxpayers submitting evidence of the coverage with their state income tax return each year. This provision was deleted in an April 14, 2005 amendment. This bill failed passage in the Assembly Revenue and Taxation Committee.

AB 1528 (Cohn, Chap. 672, Stats. 2003) as introduced, proposed a mandated health care coverage program with similar requirements for the department as proposed under this bill. The bill was later amended to exclude the department's involvement, and created the California Health Care Quality Improvement and Cost Containment Commission to examine issues related to providing quality health care for all Californians.

## FISCAL IMPACT

Staff estimates that the department's cost for mailing a notice is approximately \$.35 per notice. Using the 2005 process year as an example, with approximately 14,656,000 personal income tax returns filed, the department estimates that for a single mailing postage alone would cost \$5.1

million. Additional costs to process 14 million notices, along with costs associated with resulting telephone calls and correspondence would be expected as a result of the provisions of this bill. Actual cost estimates will be developed as the bill progresses through the legislative process.

## **ECONOMIC IMPACT**

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of AB 1982 As Amended 4/17/2006 [\$ In Millions]		
2006-07	2007-08	2008-09
-\$35	-\$75	-\$75

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

## **Tax Revenue Discussion**

The revenue impact of the bill would be determined by a decrease in employee's wages that would reflect a shift to health benefits. Regardless of whether the employer provides health care coverage or contributes 7% of total payroll costs to fund uninsured workers health care coverage, employers would offset these costs by reducing compensation to employees. Contributing 7% of total payroll costs would dilute wages less than directly providing health care coverage.

According to *The State of Health Insurance in California*, there are approximately 6.6 million uninsured non-elderly individuals in California. Roughly 3.8 million are uninsured workers.

If employers of the 3.8 million uninsured individuals contribute 7% of total payroll costs, wages would potentially decrease by roughly \$3.8 billion. This assumes an average hourly wage rate of \$10, a 32-hour workweek, and 45 weeks of employment annually (3.8 million uninsured x \$10 x 32 hours x 45 weeks x 7% contribution = \$3.8 billion). Assuming half of the \$3.8 billion is attributed to uninsured workers who do not have sufficient income to generate a tax liability, and applying a 4% marginal tax rate to the other half, results in revenue losses of approximately \$75 million annually (\$3.8 billion x 50% x 4% = \$76 million).

Taxable year estimates are converted to cash flow fiscal year estimates in the table.

## **LEGISLATIVE STAFF CONTACT**

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